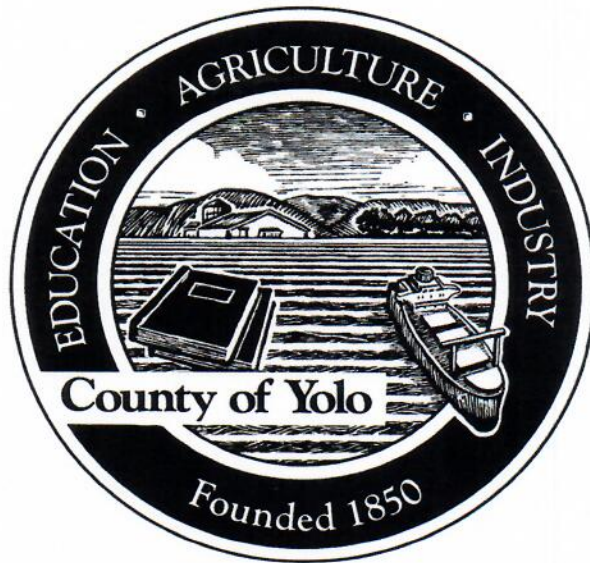


COUNTY OF YOLO
DEPARTMENT OF FINANCIAL SERVICES
Division of Internal Audit



County of Placer
Auditor-Controller's Office
External Quality Assessment of the Internal Audit Division
July 1, 2015 to June 30, 2018

Date Issued
December 16, 2019



County of Yolo

www.yolocounty.org

CHAD RINDE, CPA
Chief Financial Officer
TOM HAYNES
Assistant Chief Financial Officer

DEPARTMENT OF FINANCIAL SERVICES

625 Court Street, Room 102

PO BOX 1268

WOODLAND, CA 95776

PHONE: (530) 666-8190

FAX: (530) 666-8215

EMAIL: DFS@yolocounty.org

- Financial Leadership
- Budget & Financial Planning
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- Internal Audit
- Procurement

Transmittal Letter

December 16, 2019

Nicole C. Howard, C.P.A.
Assistant Auditor-Controller
County of Placer
2970 Richardson Drive
Auburn, CA 95603

Re: Placer County Internal Audit – External Quality Assessment

Dear Ms. Howard:

We have completed our external quality assessment (peer review) of the Placer County Internal Audit as prescribed by the International Standards for the Professional Practice of Internal Auditing (Standards) promulgated by the Institute of Internal Auditors. Our report is enclosed.

The Standards require that internal audit activities undergo a comprehensive external quality assessment at least once every five years. The assessment evaluates the quality of the internal audit activity and recommends areas for improvements. Surveys are used to provide feedback as to the internal audit activity's effectiveness and efficiencies.

The quality assessment was focused on internal audit projects during the peer review period July 1, 2015 to June 30, 2018. Our review consisted of: review of administrative documents and audit work papers; interviews with audit staff, audit management and other key county managers; and comparison with practices recommended by the Standards.

Based on our evaluation, Placer County Internal Audit generally conforms to the Standards. The survey results provided useful information of the internal audit activity's operations and relationship with their audit clients.

We appreciate the courtesy and cooperation by the audit committee, audit management, internal audit staff and the county management who had participated in the peer review process. Their time and effort towards this project made the process of conducting the peer review efficient and demonstrated their commitment to effective internal audits.

Sincerely,

Chad D. Rinde, C.P.A.
Chief Financial Officer

Cc: Andrew C. Sisk, Auditor-Controller

**External Quality Assessment
For the Period: July 1, 2015 to June 30, 2018
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Executive Summary

The International Standards for the Professional Practice of Internal Auditing requires that an external quality assessment of the Placer County internal audit activity must be conducted at least once every five years by a qualified, independent assessor or assessment team from an outside organization. The qualified assessor or assessment team must demonstrate competence in both the professional practice of internal auditing and the quality assessment process. The assessment can be accomplished through a full external assessment or a self-assessment with independent validation. However, when audits are performed in accordance with the attestation standards established by the American Institute of Certified Public Accountants or generally accepted government audit standards established by the United States Government Accountability Office, the review must occur every three years.

The County of Placer Assistant Auditor-Controller (Chief Audit Executive) discussed the form and frequency of the quality assessment, as well as the independence and qualifications of the external assessment team, including any potential conflicts of interest with the board. Upon consultation and agreement by the board, Placer County selected Yolo County as the qualified, independent external assessment team to conduct a full external assessment (peer review) of the internal audit activity of Placer County.

As part of the peer review program sponsored by the California State Association of County Auditors and as requested by the Chief Audit Executive, we have conducted an external quality assessment of the internal audit activity of the county (Placer County Internal Audit) in accordance with the International Standards for the Professional Practice of Internal Auditing (Standards) promulgated by the Institute of Internal Auditors (IIA).

Objectives, Scope and Methodology:

The peer review for Placer County Internal Audit was focused on internal audit projects during the period July 1, 2015 to June 30, 2018. We utilized the Standards (Revised January 2017) as well as the Institute of Internal Auditors Quality Assessment Manual for the Internal Audit Activity (2017) as the primary criteria for our evaluation. Standard 1312 require an external assessment of the internal audit activity be conducted at least once every five years to assess compliance with the standards and to evaluate the quality of the internal audit activity's operations.

Our review consisted of: review of administrative documents and audit work papers; interviews with audit staff, management and other key county managers; and comparison with practices recommended by the Standards.

Conclusion:

Based on the results of our work, we determined that the Placer County Internal Audit generally conforms to the Standards and Code of Ethics (See Attachment A, Standards Conformance Evaluation Summary) and has also incorporated best practices within the internal audit activity function. We have reported the observations of gaps of conformance with the Standards or the Code of Ethics and opportunities for continuous improvement below to Placer County's audit management for their consideration. Management's views and responses are documented in a separate report.

We interviewed members of the audit committee, executive management, chief audit executive and internal audit staff to assess proficiency in certain skills, competencies, or knowledge exhibited by the staff and management of the internal audit activity. The interviewees made comments regarding the operations of the Placer County Internal Audit to the effect that the auditor-controller, chief audit executive and their staff were professional and exceeds expectations. One improvement that the interviewees expressed is that additional staff within the internal audit division would be beneficial to providing more assurance countywide.

Surveys were also distributed to four audit clients and to all of the internal audit staff. Overall results revealed that the audit clients were satisfied with the Placer County Internal Audit services and viewed the internal audit activity as a great resource for department staff, knowledgeable of accounting and internal controls and as a trusted advisor. One improvement that the interviewees expressed is the completing of engagements more timely to provide more relevance to the audit recommendations. Additionally, the internal audit staff expressed their appreciation for a collaborative working environment, variety of the audit work assigned, and the support given by audit management for career development.

Detail Observation and Recommendation

The Internal Audit environment where the external assessment was performed is well structured and progressive where the Standards are understood; the Code of Ethics is being applied; and management endeavors to provide useful audit tools and implement appropriate practices. Consequently, our comments and recommendations are intended to build on this foundation already in place. Observations are divided into three categories, *Part I – Successful Internal Audit Practices*; *Part II – Gaps to Conformance with the Standards or the Code of Ethics*; and *Part III – Opportunities for Continuous Improvement* as described below:

Part I – Successful Internal Audit Practices

Successful Internal Audit Practices- Areas where the Placer County Internal Audit is operating in a particularly effective or efficient manner when compared to the practice of internal auditing demonstrated in other internal audit activities. The identification of these items is intended to provide Internal Audit stakeholders with a view by Yolo County on things the Placer County Internal Audit is doing in a leading practice manner when compared to other internal audit activities.

Standard 1300 –Quality Assurance and Improvement Program – Chief Audit Executive has implemented the five essential components for an effective QAIP program with an annual internal assessment of the internal audit activity, peer review, use of a checklist and customer survey after each audit, performance measures of the internal audit activity, and communication of QAIP results to the audit committee.

Standard 2000- Managing the Internal Audit Activity – Chief Audit Executive effectively manages the internal audit activity to ensure it adds value to the organization. The CAE defines the internal audit activity's scope and deliverables, specifies the resources needed, and outlines an approach to develop the internal audit activity and measure its performance and progress against the internal audit plan. The internal audit plan is approved by the audit committee and progress reports are communicated semi-annually to the committee.

Further, the internal audit activity strives to:

- Achieve the purpose and responsibilities included in the internal audit charter;
- Conform with the Standards;
- Have the individual team members conform with the Code of Ethics and the Standards; and
- Consider trends and emerging issues that could impact the organization.

Standard 2110- Governance – The Internal Audit Activity must assess and make appropriate recommendations to improve the organization's governance processes. Placer County Internal Audit manages a whistleblower hotline and investigates matters to help stop fraud, waste, and abuse contributing to effective governance processes.

Standard 2500- Monitoring Progress – Chief Audit Executive has established and maintains a system to monitor the implementation of corrective actions and communications the status of the corrective actions to the audit committee.

Part II – Gaps to Conformance with the Standards

Gaps to Conformance with the Standards or the Code of Ethics -Areas identified during the quality assessment where the assessment team has concluded that the Placer County Internal Audit is operating in a manner that falls short of achieving one or more major objectives, with the Standards or the Code of Ethics that results in an opinion for an individual standard of "partially conforms" or "does not conform." These items will include recommendations offered by the external assessment team for actions to be implemented for achieving "generally in conformance" with the standard and will include the Placer County Internal Audit's response and an action plan to address the gap.

Standard 1110 – Organizational Independence
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Partial-Gap to Conformance - Chief Audit Executive has operational responsibilities beyond internal audit including oversight responsibilities for other divisions of the Auditor-Controller's Office including Financial Reporting, General Accounting, Payroll, and Property Tax. These other responsibilities may, themselves, be subject to audit. The internal audit staff were temporarily reassigned to support the Financial Reporting Division due to key retirements within the

Auditor-Controller's Office. Although the CAE individually tracks the internal audit activities and a statement of independence form is completed by each auditor, the appearance of impairment to independence or objectivity may exist. We recommend the following considerations:

- Discuss independence concerns and the potential objectivity impairments with the audit committee in a regular meeting. This discussion should inform the committee of any temporary reassignments.

Placer County Internal Audit Response

We agree with the auditor's recommendation and in fact Internal Audit staff reassignments were discussed in general at the April 2018, July 2018 and October 2018 audit committee meetings. However, specific reassignments were not noted in the minutes. In addition, all reassigned staff explained their lack of independence in their annual Statements of Independence and Non-Impairment which were reported to the audit committee at the February 2019 meeting. In the future, if staff are reassigned again, we will document the discussions in a more detailed manner.

Part III – Opportunities for Continuous Improvement

Opportunities for Continuous Improvement- Observations of opportunities to enhance the efficiency or effectiveness of the Placer County Internal Audit's infrastructure of processes. These items do not indicate a lack of conformance with the Standards or the Code of Ethics, but rather offer suggestions on how to better align with criteria defined in the Standards or the Code of Ethics. They may also be operational ideas based on the experiences of the external assessment team from working with other internal audit activities. A management response and an action plan to address each opportunity for continuous improvement noted are normally included.

Standard 1000 - Purpose, Authority, and Responsibility

Area of Improvement – Chief Audit Executive annually reviews the internal audit charter. The internal audit charter was approved in 2012 and last updated in 2015 as noted by the CAE. The audit committee charter was approved in 2008 (11 years old), and is silent on specific tasks related to the internal audit division. We recommend the following considerations:

- Create a standing annual agenda item with the audit committee to discuss, update and approve the internal audit charter as needed
- Review the audit committee charter to ensure alignment of responsibilities within the internal audit charter
- Document in the charter the Audit Committee's responsibilities for input in the decisions regarding the Chief Audit Executive, including but not limited to appointment, remuneration or removal
- Review and recommend changes of the audit committee charter to the Board of Supervisors

Placer County Internal Audit Response

We agree with the auditor's recommendation and will include these suggestions during our next review of the Audit Committee Charter, commencing in early 2020.

Standard 1230 – Continuing Professional Development

Area of Improvement – The International Standards for the Practice of Internal Auditing (Standards) require internal auditors to enhance their knowledge, skills, and other competencies through continuing professional development (CPE). The IPPF Implementation Guideline recommends, to ensure internal auditors have the opportunity to enhance their knowledge, skills, and other competencies, the Chief Audit Executive may establish a training and development policy that supports continuing professional development. Such a policy may specify a minimum number of training hours for each auditor, such as 40 hours, which is consistent with many professional certification requirements. In addition, 2-hours of CPE on the subject of ethics completed annually. This recommendation helps ensure that internal auditors remain competent in the growing and dynamic profession of internal auditing. Placer County Chief Audit Executive tracks the internal audit management and staff CPE trainings on a spreadsheet and requires 80 CPE hours each two years. The CPE hours for some auditors not all auditors, during the peer review period, fall short of the 80 training hours. We recommend the following considerations:

- Establish a training and development policy to ensure that the minimum number of training hours including the subject of ethics for each auditor is met.

Placer County Internal Audit Response

We will better document our internal policy related to training and continuing professional development for our internal audit staff, ensuring that all continue to meet the IIA Standard 1230- Continuing Professional Development.

Standard 2300 – Performing the Engagement

Area of Improvement – The Internal Audit Activity uses data analytics for sample-based testing. The expanded use of Computer Assisted Auditing Techniques (CAAT) may enable the analysis of an entire population of information, rather than just a sample. According to the CAE, they would like to expand the use of data analytics to support their continuous monitoring program. The Internal Audit Activity uses paper workpapers for documentation of audit engagements. The use of an electronic workpaper management system may bring additional efficiencies once implemented to the internal audit function.

We encourage the Chief Audit Executive to explore opportunities to further enhance their efficiency with using of CAAT or electronic workpaper management. It may be beneficial to consult with other counties and agencies that have implemented these tools as Placer County Internal Audit progresses towards continuous auditing.

Placer County Internal Audit Response

We agree with the auditor's recommendation and will research CAAT and electronic workpapers once our Internal Audit Division is fully staffed and resources allow.

Part IV – Status of 2013 External Assessment Recommendations

Part I -Matter for Consideration by Placer County Internal Audit

Develop a Risk-Based Audit Plan

Recommendation: We recommend that the Chief Audit Executive consider using the Chartered Institute of Public Finance and Accountancy, Government Finance Officers Association financial model (CIPFA-GFOA FM) to assist them in reviewing financial management practices against best practices and to identify risk areas countywide that should be included in the audit plan.

Status: Completed.

Part II- Issues Specific to the Internal Audit Activity

Complete an Internal Assessment of the Internal Audit Activity

Recommendation: We recommend that the Chief Audit Executive incorporate an internal audit assessment of the internal audit activity at least annually and report the results to the auditor-controller and audit committee.

Status: Completed.

We appreciate the time and effort expended by the Placer County Internal Audit management and staff during this project and their professional and courteous attitude.

Peer Review Team

Team Leader: Chad D. Rinde, CPA,
Chief Financial Officer

Team Members: Kim Eldredge, CGAP
Audit Manager

Noemy Mora-Beltran
Internal Auditor

Placer County Internal Audit - External Quality Assessment
Attachment A: Standards Conformance Evaluation Summary

OVERALL EVALUATION		GC	PC	DNC
1000	Purpose, Authority, and Responsibility	X		
1010	Recognition of the Definition of Internal Auditing, the Code of Ethics, and the <i>Standards</i> in the Internal Audit Charter	X		
1100	Independence and Objectivity	X		
1110	Organizational Independence		X	
1111	Direct Interaction with the Board	X		
1120	Individual Objectivity	X		
1130	Impairments to Independence or Objectivity	X		
1200	Proficiency and Due Professional Care	X		
1210	Proficiency	X		
1220	Due Professional Care	X		
1230	Continuing Professional Development	X		
1300	Quality Assurance and Improvement Program	X		
1310	Requirements of the Quality Assurance and Improvement Program	X		
1311	Internal Assessments	X		
1312	External Assessments	X		
1320	Reporting on the Quality Assurance and Improvement Program	X		
1321	Use of "Conforms with the <i>International Standards for the Professional Practice of Internal Auditing</i> "	X		
1322	Disclosure of Nonconformance	N/A	N/A	N/A
2000	Managing the Internal Audit Activity	X		
2010	Planning	X		
2020	Communication and Approval	X		
2030	Resource Management	X		
2040	Policies and Procedures	X		
2050	Coordination	X		
2060	Reporting to Senior Management and the Board	X		
2070	External Service Provider and Organizational Responsibility for Internal Auditing	N/A	N/A	N/A
2100	Nature of Work	X		
2110	Governance	X		
2120	Risk Management	X		
2130	Control	X		

Placer County Internal Audit - External Quality Assessment
Attachment A: Standards Conformance Evaluation Summary

OVERALL EVALUATION		GC	PC	DNC
2200	Engagement Planning	X		
2201	Planning Considerations	X		
2210	Engagement Objectives	X		
2220	Engagement Scope	X		
2230	Engagement Resource Allocation	X		
2240	Engagement Work Program	X		
2300	Performing the Engagement	X		
2310	Identifying Information	X		
2320	Analysis and Evaluation	X		
2330	Documenting Information	X		
2340	Engagement Supervision	X		
2400	Communicating Results	X		
2410	Criteria for Communicating	X		
2420	Quality of Communications	X		
2421	Errors and Omissions	N/A	N/A	N/A
2430	Use of "Conducted in conformance with the <i>International Standards for the Professional Practice of Internal Auditing</i> "	N/A	N/A	N/A
2431	Engagement Disclosure of Nonconformance	N/A	N/A	N/A
2440	Disseminating Results	X		
2500	Monitoring Progress	X		
2600	Communicating the Acceptance of Risks	X		
IIA Code of Ethics		X		

GC - "Generally Conforms" means that the assessor or the assessment team has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual standard or elements of the Code of Ethics in all material respects. For the sections and major categories, this means that there is general conformity to a majority of the individual Standard or element of the Code of Ethics and at least partial conformity to the others within the section/category. There may be significant opportunities for improvement, but these should not represent situations where the activity has not implemented the Standards or the Code of Ethics, and has not applied them effectively or achieved their stated objectives. As indicated above, general conformance does not require complete or perfect conformance, the ideal situation, or successful practice, etc.

PC - "Partially Conforms" means that the assessor or assessment team has concluded that the activity is making good-faith efforts to comply with the requirements of the individual standard or elements of the Code of Ethics or a section or major category, but falls short of achieving some major objectives. These will usually represent significant opportunities for improvement in effectively applying the Standards or the Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the internal audit activity and may result in recommendations to senior management or the board of the organization.

DNC- "Does Not Conform" means that the assessor or assessment team has concluded that the internal audit activity is not aware of, is not making good-faith efforts to comply with, or is failing to achieve many or all of the objectives of the individual standard or element of the Code of Ethics or a section or major category. These deficiencies will usually have a significantly negative impact on the internal audit activity's effectiveness and its potential to add value to the organization. These may also represent significant opportunities for improvement, including actions by senior management or the board.

N/A – Not Applicable